

## **RETIREMENT SECURITY POLICY INITIATIVE**

The Advocate's 2022 Annual Report raised the question of retirement security in America considering the changing defined benefit landscape. While SECURE Act 2.0 and other legislation have provided numerous provisions to enhance and strengthen the system, the Office of the Advocate continually hears questions and concerns about its sustainability and future. In 2023, the Office launched its Retirement Security Policy Initiative (Initiative) to examine the private-sector defined benefit system and explore what PBGC can do, in accordance with its statutory mission, to preserve, promote, and protect the system.

These issues are more important than ever as we approach the 50<sup>th</sup> anniversary of ERISA and contemplate how to ensure retirement security for all generations. While there is still great interest in the defined benefit system and a recognition of the benefits pension plans provide to participants and beneficiaries, many plan sponsors are hesitant to reopen or adopt new pension plans based on prior negative experiences with volatility, risk, and the escalating costs traditionally associated with these types of plans.

Rising PBGC premiums are frequently cited as a major factor in plan sponsors' decisions to freeze, terminate, and/or de-risk their plans since it is often more cost-effective to purchase annuities than continue paying premiums. Given the well-funded status of the PBGC single-employer trust fund, along with greatly improved funded status of many ongoing plans, some sponsors question why they are paying such high premiums to insure for a risk that is no longer relevant.

The Office of the Advocate held a series of informal discussions to further explore these topics with a variety of defined benefit plan stakeholders, including participant and plan sponsor advocacy groups, actuaries, academics, and other industry experts. Notable topics raised during these conversations include:

- Alternative PBGC premium structures, such as automatically adjusting single-employer premium levels based on PBGC's average funded status and considering a PBGC premium holiday. One specific proposal raised by members of the plan sponsor community suggests automatic premium decreases or increases when PBGC funding climbs above or dips below certain levels.
- Taking PBGC premiums "off budget," to ensure that premiums are no longer counted in general fund revenue, as these funds cannot be used for governmental purposes other than funding PBGC programs.
- Capturing value and other potential uses for the surplus when a plan is above full funding, such as using the surplus to fund defined contribution plan benefits, which would require legislation since current law only permits such use if the overfunded plan terminates. Similarly, surplus amounts in Section 401(h) health arrangement accounts could be used to fund both defined benefit and defined contribution plans.
- Renewing interest in cash balance plans and exploring ways to promote the structure, including legislative and regulatory changes to facilitate administration of cash balance plans. This should include updating the accounting rules of cash balance plans to accurately reflect plan sponsors' future benefit obligations.

- Other alternative defined benefit structures that offer flexibility, portability, and limited risk-sharing between the employer and employee. This includes, for example, variable annuity plans, which protect plan sponsors from risk by adjusting benefits based on returns on the plan's assets, but also include participant protections, such as benefit stabilization by way of an asset reserve.
- Making defined benefit plans more attractive to plan sponsors, including reforming reporting and compliance requirements to reduce administrative burdens.
- Considering what activities PBGC can undertake **now** to help promote retirement security and showcase the value of the defined benefit system.

Additional topics from these discussions can be found in Appendix I. As a follow-up to these preliminary conversations, the Office of the Advocate will be holding a series of roundtables. The Office is finalizing a procurement for contractor support to help organize and facilitate the roundtables and expects to launch this next phase of the Initiative in early 2024. Potential roundtable discussion topics include ways to strengthen and preserve the defined benefit system, PBGC premiums, plan design, and other future considerations for the system.